JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
VERIZON COMMUNICATIONS INC.

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD JANUARY 3, 2005 THROUGH JANUARY 2, 2007

Final Procedures – June 13, 2007

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TABLE OF CONTENTS

VERIZON COMMUNICATIONS INC.
BIENNIAL ENGAGEMENT PROCESS

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of section 271 of the Act and must receive approval by the Federal Communications Commission (FCC or Commission). A BOC that is required to operate a separate affiliate under section 272 must obtain and pay for a joint Federal/State audit every two years.[1]

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commission's rules. 47 C.F.R. § 53.209(b) (listing the specified compliance requirements of the section 272(d) biennial audit). In addition to specifying the audit requirements, the Commission's rules provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from the planning stage to its completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements [in 47 C.F.R. § 53.209(b)]." 47 C.F.R. § 53.209(d). Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) (stating that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"); 53.211(b) (requiring the Federal/State joint audit team to review the audit requirements and authorizing the Federal/State joint audit team to modify the audit program); 53.211(c) (authorizing the Federal/State joint audit team to approve the audit requirements and program); 53.211(d). In accordance with Statements on Standards For Attestation Engagements, 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a

[1] 47 U.S.C. § 272(d).

government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards."

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission's rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."[2] For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the "specified parties" consist of the Federal/State joint audit team ("Oversight Team" or "Joint Oversight Team") and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, Verizon Communications Inc. ("Verizon"). The Oversight Team will be comprised of members from the FCC and members of the state commissions who have jurisdiction over Verizon's local telephone services in their respective states[3] and who have chosen to participate in the Biennial Audit and have either signed a Protective Agreement or the State commission has promulgated a Protective Order.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after having apprised Verizon of their intention, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission's rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of section 53.209(b) as reflected in letters or orders issued by the Bureau staff and served on Verizon. If Verizon disagrees with the Oversight Team's directions, the Oversight Team will issue a written decision describing the specific directions to which Verizon objects. Verizon may file a petition for reconsideration of that decision with the Enforcement Bureau pursuant to section 1.106 of the Commission's rules. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team ten business days after such decision is issued if Verizon has not filed a petition for reconsideration. The specified parties further agree that if the Enforcement Bureau denies any part of Verizon's petition for reconsideration, the independent auditor shall immediately implement the Enforcement Bureau's decision.

Verizon may also file an Application for Review of the Enforcement Bureau's decision pursuant to section 1.115 of the Commission's rules. The independent auditor shall nonetheless

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[2] Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

[3] Connecticut, District of Columbia, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia.

implement the Enforcement Bureau's decision even if Verizon files an Application for Review of that decision. Should the Commission grant any part of Verizon's application for review, the independent auditor shall modify its procedures accordingly. In the event that Verizon's application for review has not been acted on by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed-upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under section 272 of the Act:

V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order).

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998.

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001.

CC Docket No. 98-121, In the Matter of Application of BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998.

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover 24 months of operations beginning January 3, 2005 and ending January 2, 2007 for all states where Verizon has obtained authority to provide in-region interLATA services. For all of the Verizon section 272 affiliates the engagement will also cover all assets added since the last audit. The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the Verizon region and ILECs providing or receiving services to/from the section 272 affiliates. The test period to be covered by these agreed-upon procedures will be from January 3, 2005 through September 30, 2006 ("Test Period"), except where noted.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d) which concerns the Biennial Audit sunsets three years after section 271 authorization. The Commission has determined that such "sunset" shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.[4] Therefore, as each state within the Verizon region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission's rules governing affiliate transactions in part 32.

[4] WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002, paragraphs 12-13.

Accordingly, operations in the following states may be excluded from this engagement as of the effective date of the related FCC public notice:

State	Sunset Effective Date
New York	December 23, 2002[5]
Massachusetts	April 16, 2004[6]
Connecticut	July 20, 2004[7]
Pennsylvania	September 19, 2004[8]
Rhode Island	February 24, 2005[9]
Vermont	April 17, 2005[10]
Maine	June 19, 2005[11]
New Jersey	June 24, 2005[12]
Delaware	September 25, 2005[13]
New Hampshire	September 25, 2005[13]
Virginia	October 30, 2005[14]
Maryland	March 19, 2006[15]
Washington D.C.	March 19, 2006[15]
West Virginia	March 19, 2006[15]

[5] WC Docket No. 02-112, Section 272 Sunsets for Verizon in New York State by Operation of Law on December 23, 2002 Pursuant to Section 272(f)(1); *Public Notice*; Released December 23, 2002.

[6] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Massachusetts by Operation of Law on April 16, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released April 16, 2004.

[7] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Connecticut by Operation of Law on July 20, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released July 20, 2004.

[8] WC Docket No. 02-112, Section 272 Sunset for Verizon Communications, Inc. in the State of Pennsylvania by Operation of Law on September 19, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released September 17, 2004.

[9] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Rhode Island by Operation of Law on February 24, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released February 24, 2005.

[10] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Vermont by Operation of Law on April 17, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released April 20, 2005.

[11] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the State of Maine by Operation of Law on June 19, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released June 20, 2005.

[12] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the State of New Jersey by Operation of Law on June 24, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released June 24, 2005.

[13] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the States of New Hampshire and Delaware by Operation of Law on September 25, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released September 26, 2005.

[14] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the State of Virginia by Operation of Law on October 30, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released October 31, 2005.

[15] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the District of Columbia and the States of Maryland and West Virginia by Operation of Law on March 19, 2006 Pursuant to Section 272(f)(1); *Public Notice*; Released March 20, 2006.

However, for this engagement operations in each of the sunset states will be included.

Sampling

9. Certain agreed-upon procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such agreed-upon procedures shall be determined after the initial survey and/or during the performance of the Biennial Audit of the section 272 affiliate. Such determinations shall be made jointly by the practitioner and specified parties. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, and method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with Verizon, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of the end of the Test Period, the practitioner will utilize September 30 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to enable the specified parties to determine continued compliance with the section 272 requirements.

Definitions

11. *BOC* If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or

exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

12. *Verizon BOC* For the purposes of this engagement, the term "Verizon BOC" includes the following former Bell Atlantic telephone operating companies: Verizon New York, Inc., Verizon New England, Inc., Verizon – Washington, D.C., Inc., Verizon – Maryland, Inc., Verizon – Virginia, Inc., Verizon – West Virginia, Inc., Verizon – New Jersey, Inc., Verizon – Pennsylvania, Inc., Verizon – Delaware, Inc., and any successor or assign of such company as described in ¶11. The term "BOC", for purposes of this engagement, does not include the former GTE telephone operating companies listed below; they shall be termed "ILECs".

The term "ILEC" (Incumbent Local Exchange Carrier) includes the following former GTE telephone companies: Verizon California, Inc., Verizon Florida, Inc., Verizon Mid-States (Contel of the South, Inc.), Verizon North, Inc., Verizon Northwest, Inc., Verizon South, Inc., Verizon Southwest (GTE Southwest, Inc.), Verizon West Coast, Inc., Puerto Rico Telephone Company (PRTC), and any successor or assign of such company as described in ¶11 until the date of sale of such company to a company not affiliated with Verizon.

13. *Affiliate* The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (*See* section 3 of the Communications Act of 1934, as amended.)

14. *Verizon Section 272 Affiliate* The agreed-upon procedures are required to be performed, unless otherwise specified, on all section 272 affiliates as defined by the Act. For the purposes of this engagement, the term "separate affiliate" or "section 272 affiliate" includes the following companies: Bell Atlantic Communications, Inc. (d/b/a/ Verizon Long Distance); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions); and Verizon Global Networks, Inc. On May 17, 2005, Verizon acquired approximately 13.9% equity interest in MCI, Inc. ("MCI") common stock. On January 6, 2006, Verizon acquired MCI[16] with the following MCI affiliates becoming section 272 affiliates: MCI Communications Services, Inc. (d/b/a Verizon Business Services); MCI International Services, Inc.; MCI International, Inc.; MCI Network Services of Virginia, Inc.; MCImetro Access Transmission Services LLC (d/b/a Verizon Access Transmission Services); MCImetro Access Transmission Services of Virginia, Inc. (d/b/a Verizon Access Transmission Services of Virginia); MCImetro Access Transmission Services of Massachusetts, Inc. (d/b/a Verizon Access Transmission Services of

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[16] MCI, Inc. is treated like a section 272 affiliate. *See In the Matter of Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, WC Docket No. 05-75, Memorandum Opinion and Order, 20 FCC Rcd 18433 (2005).

Massachusetts); Metropolitan Fiber Systems of New York, Inc.; Teleconnect Long Distance Services and Systems Co.; Skytel Corporation; TTI National Inc.. The term ”section 272 affiliates” also includes the following section 272 affiliates resulting from the Bell Atlantic/GTE merger: Verizon Select Services Inc. (VSSI) (formerly GTE Communications Corp.); Verizon International Communications Services Inc. (formerly Codetel International Communications Inc. (CICI)); any other affiliate that originates interLATA telecommunications services in the Verizon region that is subject to section 272 separation requirements; and any affiliate that engages in manufacturing activities as defined in section 273(h).

On February 18, 2005, ownership of Verizon Global Solutions, Inc. (GSI) was transferred from Bell Atlantic International, Inc. to GTE Corporation, and on March 1, 2005, GSI was merged into Verizon Select Services Inc..

15. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in United States v. Western Electric Co. Inc. See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. *Obtain* For purposes of this engagement, the term “obtain” as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgement, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner’s team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to Verizon how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;

- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);

- The relevant orders and rules from the following FCC Dockets:

  a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

  b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;

  c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;

  d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

  e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;

  f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

  g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

- Verizon's section 271 application(s) and related FCC approval(s);

- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;

- Petitions for arbitration with the BOC for those agreements tested within the engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed-upon procedures or the scope of the engagement, in order to provide the specified parties with all of the information needed for the specified parties to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform Verizon about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with Verizon.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the Verizon BOC/ILEC cost allocation manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para. 23). The second type of representation letter shall address all items of a financial nature (see para. 24). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para. 25). The following paragraphs detail the contents of each type of

representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of each Verizon BOC/ILEC and each section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that Verizon has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the draft report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that: each section 272 affiliate operates independently from all Verizon BOCs/ILECs; no Verizon BOC/ILEC owns any facilities jointly with any section 272 affiliate; and no Verizon BOC/ILEC is providing and did not provide any research and development that is a part of manufacturing on behalf of any section 272 affiliate pursuant to section 272(a);

h. statement that each section 272 affiliate has separate officers, directors, and employees from those of any Verizon BOC/ILEC;

i. statement that no Verizon BOC discriminated between itself or the section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on each Verizon BOC's representation letter only);

j. statement that each Verizon BOC/ILEC subject to section 251(c) of the

Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on each Verizon BOC/ILEC's representation letter only);

k. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its section 272 affiliates that operate in the same market (on each Verizon BOC/ILEC's representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of each Verizon BOC/ILEC and each section 272 affiliate and shall include the following:

a. statement that each section 272 affiliate maintains separate books, records, and accounts from those of any Verizon BOC/ILEC and that such separate books, records, and accounts are maintained in accordance with Generally Accepted Accounting Principles (GAAP);

b. statement that each section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of any Verizon BOC/ILEC;

c. statement that management has identified to the practitioner all assets transferred or sold since the last Biennial Audit, and services rendered: (i) by each Verizon BOC/ILEC to each section 272 affiliate; and (ii) by each section 272 affiliate to each Verizon BOC/ILEC; and that these transactions have been accounted for in the required manner;

d. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has charged its section 272 affiliates, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on each Verizon BOC/ILEC's representation letter only);

e. statement that, if any Verizon BOC/ILEC and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to an interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on each Verizon BOC/ILEC's representation letter only);

f. statement that management has not changed any of the Verizon BOC/ILEC processes or procedures (as they relate to transactions of any kind with a section 272 affiliate) and that these procedures and processes have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on each Verizon BOC/ILEC's representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of Verizon and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

26. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor Verizon concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The General Standard Procedures shall be used by Verizon as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in section 53.211(a) and (b) of the Commission's rules. Under these rules, Verizon shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. Verizon shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After Verizon has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the section 272 affiliates and the relevant Verizon BOC/ILECs. The Oversight Team and the practitioner shall coordinate with Verizon to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and Verizon

BOC/ILEC procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between four to six months before the end of the period to be covered by this engagement.

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (section 53.211(d)).

- The practitioner shall present the sampling plan for the engagement (See paragraph 9) to the Oversight Team with submission of the detailed audit program following the survey. At the same time, the practitioner shall also present to the Oversight Team a copy of its engagement letter to Verizon disclosing how the practitioner team will comply with the independence requirements of the Sarbanes-Oxley Act of 2002, if such independence compliance information has not yet been provided (See paragraph 17).

- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (section 53.211(d)).

28. Access to all information during the section 272(d) Biennial Audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with Verizon; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but that Verizon does not object to provide oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in section 53.211 and section 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with Verizon, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but not less than ten days, of plans to meet with representatives of Verizon for the following reasons: to discuss plans and procedures for the engagement; to survey Verizon operations; to review Verizon procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain

items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit program and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, Verizon, any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team in writing of any delay or failure by Verizon to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. On March 5, 2007 and prior to discussing the findings with Verizon, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have until April 19, 2007 to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and Verizon of any need for additional time to perform such procedures. Otherwise, after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report by May 4, 2007 to Verizon for its comments on the findings, and to the Oversight Team.

d. By June 4, 2007, Verizon will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. Verizon will also provide the practitioner and the Oversight Team notification of all items contained in the draft report, which Verizon contends to be confidential. The Verizon response shall be included as part of the final report.

e. By June 14, 2007, the practitioner may respond to Verizon's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over Verizon. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed.

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

32. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the agreed-upon procedures in the form of findings, including dollar amounts, resulting from application of the agreed-upon procedures. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings and shall describe in the final report all instances of noncompliance with section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or disclosed by Verizon during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

a. A title that includes the word independent.

b. Identification of the specified parties.

c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.

d. Identification of Verizon as the responsible party.

e. A statement that the subject matter is the responsibility of the responsible party.

f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or as directed by the Bureau or the Commission, as specified in paragraph 3.

g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.

h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.

i. A list of the procedures performed (or reference thereto) and related findings.

j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over Verizon.

l. A description of any limitations imposed on the practitioner by the BOC/ILECs or any other affiliate, or other circumstances that might affect the practitioner's findings.

m. A description of the nature of the assistance provided by specialists and internal auditors.

VERIZON COMMUNICATIONS INC.
BIENNIAL ENGAGEMENT PROCEDURES

Exceptions to the General Standard Procedures

I. Throughout these general standard procedures, reference is made to the 'section 272 affiliate'. Since Verizon has more than one 'section 272 affiliate,' the agreed-upon procedures must be performed on all section 272 affiliates, unless stated otherwise in the specific procedures or covered by the exceptions below.

   A. The following procedures will not be performed for Verizon International Communications Services Inc. (formerly CICI):
      Objective I, Procedure 4;
      Objective II, Procedures 1, 2, and 3;
      Objective III, Procedure 2;
      Objective IV, Procedures 1, 2, and 3; and
      Objective V/VI, Procedure 8.

   B. None of the procedures in this audit program will be performed for MCI for the period January 3, 2005 through January 6, 2006.

   C. In addition, the following procedure will not apply to MCI:
      Objective I, Procedure 1.

II. Throughout these general standard procedures, reference is made to the "BOC/ILEC." Since Verizon has more than one "BOC/ILEC," the agreed-upon procedures must be performed on all BOC/ILECs, unless stated otherwise in the specific procedures or covered by the exceptions below.

   A. For Objectives VIII through XI, where the procedures refer to "ILEC," the practitioner will perform the procedures only in states that the BOC received 271 authority as of the engagement period.

   B. Objective III, Procedure 2, will not be performed for PRTC.

Follow-up Procedures on the Prior Engagement

I. The following matters were noted in the Verizon Communications Inc. Section 272 Biennial Agreed-Upon Procedures Report dated June 13, 2005 and filed with the Commission by Deloitte & Touche LLP ("Deloitte"):

A. As part of the reconciliation between the detailed fixed asset listing and the balance sheet, Deloitte noted that for GNI, of 54,783 asset items, 241 assets with a total net book value of $264,489 did not have an asset description. (Appendix A, I-6 in the 6/13/05 report, I-4 in this program)

B. There were multiple incidents (involving some 14 services) where a Verizon BOC/ILEC provided services to a section 272 affiliate without a written agreement. (Appendix A, V/VI-4a in the 6/13/05 report, V/VI-4a in this program)

C. Of 51 sampled items, Deloitte noted 13 instances where internet posting of affiliate transactions took place more than ten days after signing of an agreement or provision of a service (whichever took place first). (Appendix A, V/VI-5 in the 6/13/05 report, V/VI-5 in this program)

D. For nontariffed services rendered by the Verizon BOC/ILECs to the section 272 affiliates and not made available to third parties, from a sample of 95 transactions, Deloitte noted one transaction where the unit charge was the lower of Fully Distributed Cost (FDC) or Fair Market Value (FMV). (Appendix A, V/VI-6a in the 6/13/05 report, V/VI-6a in this program)

E. For nontariffed services rendered by the Verizon BOC/ILECs to both the section 272 affiliates and to third parties, from a sample of 95 transactions, Deloitte noted: (i) for 2 of the 95 selections, no specific rates for the service were provided in the publicly filed agreements; (ii) for 3 of the 95 selections, the publicly filed agreement indicated the rate as "to be determined;" and (iii) for 1 of the 95 selections, Deloitte noted a difference where the rates charged for certain services provided in California were provided at a 12 percent discount from the rates included in the publicly filed agreements. (Appendix A, V/VI-6b in the 6/13/05 report, V/VI-6b in this program)

F. For all services rendered to the Verizon BOC/ILECs by each section 272 affiliate during the Test Period, from a sample of 95 selections, Deloitte noted that for 5 of the 95 selections, the payment documentation could not be located. (Appendix A, V/VI-8 in the 6/13/05 report, V/VI-7b in this program)

G. For 16 of a sample of 36 invoices (from a population of 177 invoices), Verizon California charged the section 272 affiliate 12 percent less than the stated price in the publicly-filed agreements or statements. (Appendix A, V/VI-11 in the 6/13/05 report, V/VI-10 in this program)

H. For local exchange services, from a sample of 95 Universal Service Order Codes ("USOC") billed to the section 272 affiliates during the randomly selected month of March 2004, Deloitte noted, for two samples, rates charged were different from the applicable tariff rates. (Appendix A, VII-4b in the 6/13/05 report, VII-4b in this program)

I. Deloitte noted one call into the Binghamton Consumer Call Center where the Verizon representative clearly informed the caller of her right to choose a long distance provider, but when the caller asked for "help with that," the representative began to market Verizon Long Distance without informing the caller of a list of other providers. Deloitte also noted one call into the Manhattan Business Call Center where the Verizon representative clearly informed the caller of his choice of long distance providers but failed to communicate to the caller the representative's ability to read a list of other providers of long distance to the caller. (Appendix A, VII-7a in the 6/13/05 report, VII-7a in this program)

J. The performance measures ("PMs") designed to determine compliance with the nondiscriminatory requirements of section 272(e)(1) reveal a varied pattern of performance, some in favor of the affiliates and some in favor of the nonaffiliates, at different stages of completion of the requests for service. (Appendix A, VIII-4 in the 6/13/05 report, VIII-4 in this program)

K. For the randomly selected month of June 2003, Deloitte was unable to replicate 31 performance measurements. (Appendix A, VIII-5 in the 6/13/05 report, VIII-5 in this program)

L. When the BOC imputed charges to itself for interLATA Gateway Access Service ("GAS") and for interLATA International/National Directory Assistance ("IDA/NDA") Service, rates for certain components were either omitted or charged at a rate below the current tariff rate. (Appendix A, X-2 in the 6/13/05 report, X-2 in this program)

M. For Wholesale National Directory Assistance ("WNDA") provided by the Verizon BOC/ILEC to VLD, Deloitte noted differences in the amount invoiced by the BOC/ILEC and the amount paid by VLD for two of the three months selected for inspection. (Appendix A, XI-4 in the 6/13/05 report, XI-3 in this program)

II. When performing the procedures related to the above matters, the practitioner will note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to the extent appropriate to ensure their non-recurrence or improvement, and the effective date of such action. If no action has been taken, obtain and include in the report management's explanation.

Procedures for Structural Requirements

<u>OBJECTIVE I.</u> Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. 53.203(a) and First Report and Order, para. 15, 158, 160)

- To the extent that research and development is a part of manufacturing, it must be conducted through a section 272 affiliate. If a BOC seeks to develop services for or with its section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to section 272(c)(1). (See First Report and Order, para. 169)

<u>PROCEDURES</u>

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this Biennial Audit, and whether there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period. For each such change reported by management, and for any section 272 affiliate established or formed since the last engagement period, inspect the certificate of incorporation, bylaws, and articles of incorporation to determine whether these affiliates were established as corporations separate from the Verizon BOC/ILECs. Note in the report the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) and confirm, as appropriate, with legal representatives of the Verizon BOC/ILECs, section 272 affiliates, and Verizon Communications Inc., the legal, reporting, and operational corporate structure of the section 272 affiliates. Disclose these facts in the report. Document and disclose in the report who owns the section 272 affiliates.

3. Inquire of management to determine whether the Verizon BOC/ILECs perform any research and development (R&D) activities on behalf of the section 272 affiliates. If yes, obtain descriptions of R&D activities of the Verizon BOC/ILECs for the Test Period and note any R&D related to the activities of each section 272 affiliate. For R&D related to the activities of each section 272 affiliate, inquire with Verizon BOC/ILEC personnel for more details, such as the extent of R&D provided, progress reports, cost, and whether the section 272 affiliate has been billed and has paid for this service and disclose in the report. For R&D services offered by any BOC/ILEC to any section 272 affiliate, inquire and disclose in the report as to whether R&D service is offered and/or has been performed by the BOC/ILECs when requested by unaffiliated entities.

4. Obtain as of the end of the Test Period the balance sheet of each section 272 affiliate and a detailed listing of all fixed assets including capitalized software which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why and disclose in the report by what amount the assets in the Balance Sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that the detailed listing includes a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). Disclose in the report any item, including dollar amounts, where any of this information is missing. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, added since January 3, 2005. If any of these documents are not made available, disclose in the report. Look for and make a note of any facilities that are owned jointly with any Verizon BOC/ILEC and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 8 under Objectives V and VI.

<u>OBJECTIVE II</u>. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

<u>STANDARDS</u>

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

<u>PROCEDURES</u>

1. Obtain the general ledger (G/L) of each section 272 affiliate as of the end of the Test Period and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of any Verizon BOC/ILEC and provide documentation. State in the report whether or not a separate G/L is maintained, if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.

2. Obtain each section 272 affiliate's financial statements (i.e. Income Statement and Balance Sheet) as of the end of the Test Period.

3. For each section 272 affiliate, obtain a list of lease agreements that were entered into or modified during the Test Period. Identify leases for which the annual obligation listed in the lease agreement is $500,000 or more. Test both leases for which the section 272 affiliate is the lessor and leases for which the section 272 affiliate is the lessee. For a statistically valid sample of leases where the annual obligation is $500,000 or more, obtain a copy of the lease agreement, and make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.

<u>OBJECTIVE III</u>. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

- Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its section 272 affiliate. (See First Report and Order, para. 178.)

PROCEDURES

1. Inquire, document and disclose in the report whether each section 272 affiliate and each Verizon BOC/ILEC maintain separate boards of directors, separate officers, and separate employees. For each Verizon BOC/ILEC and section 272 affiliate, obtain a list and written confirmation from the Corporate Secretary's Office of the names of directors and officers of the Verizon BOC/ILEC and section 272 affiliate, including the dates of service for each Board member and officer for the engagement period. Compare the list of names of directors and officers of each Verizon BOC/ILEC with the list of names of directors and officers of each section 272 affiliate. For those names appearing on both lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers (who have the same social security number and address) who served simultaneously as a director and/or officer of any Verizon BOC/ILEC and any section 272 affiliate.

2. Obtain a list of names and social security numbers of all employees of each section 272 affiliate and each Verizon BOC/ILEC for the engagement period. Compare all names and social security numbers of employees and document in the work papers the names appearing on both lists, respectively. For any employee appearing on both lists simultaneously, inquire and document why in the report. For privacy reasons, do not include the names or SSNs of any Verizon employees in the report.

<u>OBJECTIVE IV</u>. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

<u>STANDARDS</u>

The FCC in 47 C.F.R. 53.203(d) indicates that a section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a section 272 affiliate that would allow each section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)

- The BOC parent, or any other non-section 272 affiliate, cannot sign or co-sign a contract or any arrangement with a section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)

- A section 272 affiliate cannot enter any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

<u>PROCEDURES</u>

1. Document in the workpapers each section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Look for guarantees of recourse to the Verizon BOC/ILECs' assets, either directly or indirectly through another affiliate, and document those instances and disclose in the report. Major suppliers are those having $500,000 or more in annual sales to the section 272 affiliate as stated in the agreement.

2. Using the lease agreements that were entered into or modified during the Test Period obtained in Objective II, Procedure 3, document any instances in which each section 272 affiliate's lease agreements (where the annual obligation is $500,000 or more as stated in the agreement) have recourse to the assets of any Verizon BOC/ILEC, either directly or indirectly through another affiliate, and disclose in the report.

3. For all debt instruments, leases, and credit arrangements that were entered into or modified during the Test Period that are maintained by each section 272 affiliate in excess of $500,000 of annual obligations and for a sample of 10 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations (judgmental sample), obtain positive confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to any Verizon BOC/ILEC's assets. Disclose in the report any recourse noted.

Procedures for Accounting Requirements

<u>OBJECTIVE V</u>. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

<u>OBJECTIVE VI</u>. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

<u>STANDARDS</u>

The FCC in CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, noted that the separate affiliates required under section 272(a) were required to meet the requirements of section 272(b) governing maintenance of books, records, and accounts, and, pursuant to section 272(c)(2), BOCs were required to account for all transactions with such affiliates "in accordance with accounting principles designated or approved by the Commission." (See para. 110)

The FCC in CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirements further by stating:

> A section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See Appendix B, Final Rules, 47 C.F.R. 53.203(e))

Section 32.27 of the Commission's rules requires the following:

> **For transactions involving the sale or transfer of assets between the carrier and affiliates:**
>
> a. assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariff rate;
>
> b. nontariffed assets sold or transferred between a carrier and its affiliate that

qualify for prevailing price valuation shall be recorded at prevailing price. In order to qualify for prevailing price valuation, sales of a particular asset to third parties must encompass greater than 25% of the total quantity of such product sold by an entity. Carriers shall apply this 25% threshold on an asset-by-asset basis rather than on a product line basis. See “Exceptions” below;

c. all other assets sold by or transferred from a carrier to its affiliate shall be recorded at no less than the higher of fair market value or net book cost. See “Exceptions” below.

d. all other assets sold by or transferred to a carrier from its affiliate shall be recorded at no more than the lower of fair market value or net book cost. See “Exceptions” below.

Exceptions:
Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceeds $500,000, the asset(s) shall be recorded at net book cost.

For transactions involving the provision of services between the carrier and affiliates:

a. services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate;

b. nontariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements;

c. nontariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation shall be recorded at the prevailing price. In order to qualify for prevailing price valuation, sales of a particular service to third parties must encompass greater than 25% of the total quantity of such service sold by an entity. Carriers shall apply this 25% threshold on a service-by-service basis rather than on a service line basis. See "Exceptions" below;

d. all other services sold by or transferred to a carrier from its affiliate, shall be recorded at no more than the lower of fair market value and fully distributed cost. See "Exceptions" below;

e. all other services sold by or transferred from a carrier to its affiliate shall be recorded at no less than the higher of fair market value and fully distributed cost. See "Exceptions" below.

Exceptions:
Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the

> $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the service does not reach or exceeds $500,000, the service shall be recorded at fully distributed cost.

Fully distributed cost is determined by following the standards contained in 47 C.F.R. 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs which cannot be directly assigned are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs which cannot be apportioned on any cost-causative basis will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

A BOC and a section 272 affiliate may provide in-house services to one another. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180; see also WC Docket No. 03-228, Report and Order, para. 8, 12, 16, 24, 31)

Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)

The separate affiliate must provide a detailed written description of the asset or service transferred and the terms and conditions of the transaction on the internet within ten days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed-upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold (See CC Docket No. 96-150, Report and Order, para. 124).) The description of the asset or service and the terms and conditions of the transaction should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC. The information made available at the principal place of business of the BOC must include a certification statement identical to the certification statement currently required to be included with all Automated Reporting and Management Information System ("ARMIS") reports. Such certification statement declares that an officer of the BOC has examined the submission and that to the best of the officer's knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)

Section 272(b)(3) does not preclude an affiliate of the BOC, such as a service affiliate, or the parent company of both the BOC and its section 272 affiliate from performing functions for both the BOC and its section 272 affiliate. The affiliate transaction rules apply to transactions between the BOC and a nonregulated affiliate of the BOC, such as a service affiliate, and to transactions between the BOC and its parent company. Under the principle of "chain transactions," the affiliate transactions rules also apply to any transactions between the section 272 affiliate and a nonregulated affiliate of the BOC, such as a service affiliate, that ultimately result in an asset or service being provided to the BOC. (See CC Docket No. 96-150, Report and Order, para. 183)

In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25% threshold has been satisfied. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Report and Order, Appendix F, Section 32.27)

Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its section 272 affiliate(s) with the exception of joint marketing, which is covered in section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such good, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a section 272 affiliate, it must ensure that the section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No 96-149, First Report and Order, para. 218)

Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))

PROCEDURES

1. Document in the working papers the procedures used by the Verizon BOCs & ILECs to identify, track, respond, and take corrective action to competitors' complaints with respect to alleged violations of the section 272 requirements. Obtain from the Verizon BOC/ILECs a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period. This list should also include outstanding complaints from the prior engagement period, which had not been resolved during that period. The list should group the complaints in the following categories:

    - allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible, and disclose in the report. For those complaints that had been resolved, obtain from management, document and disclose in the report how those allegations were concluded and, if the complaint was upheld, inquire, obtain from management, and document and disclose in the report what steps the company has taken to prevent those practices from recurring. For all complaints that were filed in the previous engagement period, but were still open as of January 3, 2005, determine by inquiry and inspection of documentation how many of these complaints were under investigation as of the end of the current engagement period, how many complaints have been resolved as of the end of the current engagement period (and in what time frame they had been resolved), and disclose results in the audit report. For those complaints that have been resolved, document and disclose in the report how those allegations were concluded, and if the complaint was upheld inquire, obtain from management, and document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed only once for Objectives V/VI, VII, VIII, IX and XI. Reporting of the results of this procedure in the final report should be found here under Objective V/VI, Procedure 1, and should include the results for each respective objective.

2. Obtain, from each Verizon BOC/ILEC and each section 272 affiliate, written procedures for transactions with affiliates as of the end of the engagement period. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and

describe any differences and disclose in the report.

3. Inquire and describe how each Verizon BOC/ILEC and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe in the report the type and frequency of training, if any, literature distributed, and company's policy, and document the nature of the supervision received by employees responsible for affiliate transactions. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. Disclose in the report whether these employees demonstrated knowledge of these rules.

4. a. Obtain a listing of all written agreements for services and for interLATA and exchange access facilities between each Verizon BOC/ILEC and each section 272 affiliate which were in effect during the Test Period. Note which agreements are still in effect. For those agreements no longer in effect, indicate the termination date; identify agreements terminated prematurely (prior to the contracted termination date) and document why and disclose in the report. Inquire and document and disclose in the report the provisioning of any service without a written agreement during the engagement period.

   b. Obtain a listing of all written agreements, amendments, and addenda that became effective and were executed during the Test Period. For a statistically valid sample of such agreements, amendments, and addenda, obtain (include in the practitioner work papers) copies of written agreements, amendments, and addenda.

5. Using the sample of the agreements, amendments, and addenda obtained in Procedure 4b, view each company's web site on the internet and compare the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above.
   a) Disclose in the report any instance where an agreement contains an item(s) that does not agree with the corresponding item on the internet, as determined in Attachment 1. Taking those instance(s) where an agreement contains an item(s) that does not agree with the corresponding item on the internet, develop and disclose in the report the error rate as a percentage. This error rate will be developed utilizing Attachment 1 (Columns D and E) and summarized using Attachment 2 (Columns B and C) as provided in this agreed-upon procedures engagement.
   b) The information provided on the internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). Such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the

disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services priced at fully distributed costs or estimated fair market value, the disclosure should include the number and type of personnel assigned to the project and the level of expertise of such personnel (including the associated rate per service unit (e.g. contacts, hours, days, etc)). Service transactions should also disclose any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully-loaded rate, and whether or not that rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs, for goods and services provided at FDC. If the information disclosed on the internet is not sufficiently detailed as described in Attachment 1 (Columns G and H), disclose in the report those particular item(s). Taking those instances where the internet did not contain sufficient details, develop and disclose in the report the error rate as a percentage. This error rate will be developed utilizing Attachment 1 (Columns G and H) and summarized in Attachment 2 (Columns D and E) as provided in this agreed-upon procedures engagement. (See CC Docket No. 98-121, In the Matter of Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998, para. 337.) Obtain copies of these public postings and include in the working papers.

c) Using the same sample as above, obtain a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, by physical inspection, determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of the Verizon BOC/ILEC. Where such information is made available electronically at any public inspection site, physically access such information at one location; for the remaining locations confirm that the Company's electronic access is operational and available to interested parties, and the certification statements are available for public inspection. Disclose in the report which database/website is used for the purpose of making agreements available at the principal places of business. Disclose in the report the total number of sampled agreements where an item in the sampled agreement (from step (a) above) does not agree with the corresponding item in the agreement at the public inspection site. Describe any differences and inquire why such differences exist and disclose in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details.

d) Using the same sample as above, document in the working papers the dates when the sample agreements were signed and/or the services were first rendered (whichever took place first) and the dates of posting on the internet. It should be noted that these transactions should be posted for public inspection within ten days of their occurrence. Inquire and note in the report late postings and reasons when posting took place after ten days of signing of agreement or provision of service (whichever took place first). Document in the working papers the procedures the company has in place for posting these transactions on a timely basis.

6. Obtain a listing of all nontariffed services rendered by the Verizon BOC/ILECs to each section 272 affiliate during the Test Period. Determine which of these services are made available to both the section 272 affiliates and to third parties.

a. From the services not made available to third parties:

(1). Determine the 9 services/bill detail lines with the highest billing volume in dollars over the Test Period (total Verizon including all BOC/ILECs and all states) that were billed to the section 272 affiliates (total Verizon including all section 272 affiliates). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. Randomly select three individual non-consecutive months during the Test Period. For each month selected, obtain the section 272 affiliate billing records for all states, all BOC/ILECs, for the 10 "services to be tested" previously identified. Billing records should reflect the billing to all section 272 affiliates. For each of the 10 services to be tested, randomly select 10 billing transactions from the three months of billing records for a total of 100 billing transactions to be tested. (If there are fewer than 10 services not made available by BOC/ILECs to third parties, continue selecting billing transactions until 100 billing transactions are selected from the billing records).

(2). For the sample of billing transactions selected in step 1 above, determine compliance with section 32.27 of the Commission's Rules by comparing unit charges to Fully Distributed Cost (FDC) or Fair Market Value (FMV) to determine if unit charges were priced at the higher of either FDC or FMV. When differences exist between the amount recorded by the BOC/ILEC, the amount billed by the BOC/ILEC, and the amount to be charged in accordance with the affiliate transaction rules, note in the report the number of instances and related amounts, and, inquire, obtain from management, and document in the report the reasons for these occurrences.

(3). For the sample of billing transactions selected in step 1, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the billed amount was paid by the section 272 affiliate. This can be accomplished, for example, by inspecting the Accounts Receivable record (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any inter-company automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. When any differences exist, note in the report the number of instances and the amount by which each item is different than the amount required by the rules and inquire, obtain from management, and document in the report the reasons for these occurrences.

(4). For the sample of billing transactions selected in step 1, test that the transaction was recorded on the section 272 affiliate's books and that the same amount was paid by the section 272 affiliate. Document in the report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded versus paid amounts.

b. From the services made available to both the section 272 affiliates and to third parties:

(1). Determine the 9 services/bill detail lines with the highest billing volume in dollars over the Test Period (total Verizon including all BOC/ILECs and all states) that were billed to the section 272 affiliates (total Verizon including all section 272 affiliates). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. Randomly select three individual non-consecutive months during the Test Period. For each month selected, obtain the section 272 affiliate billing records for all BOC/ILECs for the 10 "services to be tested". For each service to be tested, randomly select 10 billing transactions from the three months of billing records for a total of 100 billing transactions to be tested. (If there are fewer than 10 services made available by BOC/ILECs to both section 272 affiliates and to third parties, continue selecting billing transactions until 100 billing transactions are selected from the billing records).

(2). For the sample of billing transactions selected in step 1 above, determine if the transaction billed to the section 272 affiliate complies with section 32.27 of the Commission's Rules. When differences exist, note in the report the number of instances and the amount by which each item is different than the amount required by the rules, and inquire, obtain from management, and document in the report the reasons for these occurrences.

(3). For the sample of billing transactions selected in step 1 above, test that the transaction was properly recorded in the financial records by the BOC/ILEC and that the payment by the section 272 affiliate was recorded by the BOC/ILEC. For each billing transaction selected, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC in accordance with the affiliate transactions rules and that the billed amount was paid by the section 272 affiliate. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any intercompany automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers.

(4). For the sample of billing transactions selected in step 1 above, test that the transaction was recorded on the section 272 affiliate's books and that the same amount was paid by the section 272 affiliate. Document in the report each instance where the payment of the bill by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded versus paid amounts.

7. Obtain a listing of all services rendered by each section 272 affiliate to each Verizon BOC/ILECs during the Test Period.

a. Randomly select three individual non-consecutive months during the Test Period. For each month selected, obtain the billing records for all services that were billed by each section 272 affiliate to the Verizon BOC/ILECs. Billing records should be for all BOC/ILECs, all states, and reflect billing from all section 272 affiliates. Determine the number of services that make up 80% of total billing dollars. From the three months of billing records, randomly select 50 bills from the section 272 affiliates to the BOCs/ILECs; if the bill selected is not billing to a BOC/ILEC, continue replacement sampling until 50 bills to BOC/ILECs are selected. From the 50 bills, select two billing transactions with different rates for a total of 100 billing transactions to be tested; if a bill does not have two billing transactions select a transaction on another bill with more than two transactions to ensure a total of 100 billing transactions. (The same service may have different rates due to state differences, interLATA usage, intraLATA usage, etc.) After selection of the 100 billing transactions to the BOC/ILECs, determine if the same services are represented in the sample as the services that made up 80% of total billing dollars; consult the JOT for approval of the sample.

b. From each transaction selected in step 7a above, determine whether the amounts recorded for the purchase of the services in the books of the BOC/ILEC are in accordance with the affiliate transactions rules of the Commission (section 32.27). Compare unit charges to Fully Distributed Cost (FDC), Fair Market Value (FMV), or prevailing market price (PMP) as appropriate. Also check any "chain" transactions. Chaining may occur when a section 272 affiliate provides an asset or service to a BOC/ILEC that was originally obtained from another nonregulated affiliate, including if the section 272 affiliate obtained a product or service that was used to create the asset or service being provided to the BOC/ILEC. In such chain transactions, the section 272 affiliate must charge the lower of FDC or FMV of the original nonregulated affiliate unless there is a prevailing market price.[17] The costs recorded by the BOC/ILEC must reflect the actual costs the originating affiliate incurred in creating the asset or providing the service unless the originating affiliate had established a prevailing market price. When differences exist, note in the report the number of instances and the amount by which each item is different from the amount required by the rules. Inquire, obtain from management, and document in the report the reasons for these occurrences. Also disclose in the report the differences between the amount the BOC/ILEC has recorded for the transaction in its books of account, and the amount the BOC/ILEC has paid for the transaction to the section 272 affiliate.

c. For the sample of billing transactions selected in step 7a above, test that the transaction was properly recorded by the section 272 affiliate, and that the billed amount was paid by the BOC. This can be accomplished, for example, by inspecting the Accounts Receivable record of the section 272 affiliate (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any inter-company automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the report each instance where a discrepancy is found in the billing or recording of the billing of the service by the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded.

8. Using the balance sheet and detailed listing information obtained in Procedure 4 under Objective I, for items added since January 3, 2005, perform the following steps:

a. For those items purchased or transferred from any Verizon BOC/ILEC, obtain net book cost and fair market value. Inquire, obtain from management, and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of the Verizon BOC/ILEC at the higher of FMV or net book cost, as required by the Commission's rules in section 32.27 and disclose in

[17] *See* In the Matter of NYNEX Telephone Companies' Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, AAD 7-1678, *Memorandum Opinion and Order*, Released October 11, 1988, paragraphs 23-25; *see also* In the Matter of Implementation of the Telecommunications Act of 1996; CC Docket No. 96-150, Accounting Safeguards Under the Telecommunications Act of 1996, *Report and Order*, Released December 24, 1996, footnote 376.

the report.

b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from any Verizon BOC/ILEC to other affiliates.

c. For those items purchased or transferred from any Verizon BOC/ILEC, either directly or through another affiliate, since January 3, 2005, also inquire and obtain from management a narrative which details how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities and disclose in the report. Describe and disclose in the report, based on inquiry and management's narrative provided, how and upon what basis the Verizon BOC/ILEC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity.

9. Obtain as of the end of the Test Period a detailed listing of all fixed assets which were purchased or transferred from each section 272 affiliate to any Verizon BOC/ILEC since January 3, 2005. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. For those items purchased or transferred from a section 272 affiliate, obtain net book cost and fair market value. Also determine if these items were originally transferred to the section 272 affiliate from some other affiliate (BOC or other), or purchased originally by the section 272 affiliate. Inspect these transactions to determine whether they were recorded in the books of the Verizon BOC/ILEC at the lower of FMV or net book cost, as required by the Commission's rules in section 32.27. Disclose results of this inspection in the report.

10. Where assets and/or services are priced pursuant to section 252(e) (i.e., as approved by the regulatory commissions) or statements of generally available terms pursuant to section 252(f), for a statistically valid sample of assets and/or services, compare the price each Verizon BOC/ILEC charges each section 272 affiliate to the stated price in the publicly-filed agreements or statements and document any differences in the report.

11. Inquire and obtain from management details as to whether any part of any Verizon BOC/ILEC's Official Services network was transferred or sold to a section 272 affiliate since January 3, 2005. In addition to the requirements for Procedure 8 above, for any transfer or sale of Official Services network assets on or after January 3, 2005, inquire and obtain from management a narrative which details how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Through inquiry and from management's narrative, describe how and upon what basis the Verizon BOC/ILEC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

OBJECTIVE VII. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)

- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)

- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)

- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

(i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.

(ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)

- in developing new services solely for its section 272 affiliate(s). (See First Report and Order, para. 210)

- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)

- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange *service*. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (*See In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain the Verizon BOC/ILECs' written procurement procedures, practices, and policies.

Inspect these policies for any stated purchasing preferences, and disclose in the report. Also disclose in the report the bidding and selection processes of the Verizon BOC/ILECs, and how the Verizon BOC/ILECs disseminate requests for proposals (RFPs) to affiliates and third parties.

2. Obtain and inspect the Verizon BOCs' procurement awards to each section 272 affiliate during the Test Period and inspect bids submitted by each section 272 affiliate and third party, note terms, and discuss with Verizon BOC representatives how the selection was made and disclose in the report. Compare this practice with the Verizon BOC/ILEC written procurement procedures and note any differences. Disclose in the report all instances of procurement awards given to the section 272 affiliates. For these awards, disclose in the report the general differences between the terms submitted by the section 272 affiliates and other bidders.

3. Obtain a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI as defined in section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each section 272 affiliate by the Verizon BOC/ILECs. For a statistically valid sample of items from this list, inquire and obtain copies of the media used by the Verizon BOC/ILECs to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. Disclose in the report the results of this procedure.

4. a. Obtain a list of all goods (including software), services, facilities, and customer network proprietary information (excludes CPNI) that were purchased during the Test Period from the BOC(s) by both an unaffiliated entity and any section 272 affiliate in any state. (NOTE: This list should **exclude** exchange access services, local exchange services, and interLATA services that are the subject of other procedures.) If any, describe in the report what goods, services, facilities, and customer network services information were purchased and the amount of purchases made. From the list obtained above, determine the 9 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. For each service selected, determine the billing system(s) used by each BOC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.

(1) Inquire, obtain from management, and document in the report a narrative of the BOC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliates and nonaffiliates (e.g., the same rate table is used for all carriers). For each service selected, obtain the billing system rate

tables. Randomly select three rates per service including any applicable discounts, surcharges, late fees, etc., used to bill the selected service to the section 272 affiliates. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than those billed to nonaffiliates. Inquire, obtain from management, and document in the report a narrative of the BOCs' procedures for updating the rate tables for the Test Period.

(2) For each billing system identified that is used to bill section 272 affiliates, document in the work papers the practices and processes the Verizon BOCs have in place to ensure the billing system bills the section 272 affiliates and nonaffiliates at the same rates and under the same terms and conditions. Document the BOC internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Inquire, obtain from management and include in the report a summary of what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also inquire, obtain from management and include a summary of the controls that the BOC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, inquire of management and document in the report how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. Randomly select three individual non-consecutive months during the Test Period. For each month selected, obtain the billing records/invoices for the services to be tested that were identified in step a. above that were billed to section 272 affiliates. Billing records should be for all BOCs, all states. From the three months of billing records/invoices, randomly select 10 invoices. On each of the 10 selected invoices, select ten line items/services to ensure that there are at least 10 different items/services selected in the overall sample. For each line item selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. Determine if the amount billed was calculated using the appropriate rate in the rate table. If historic rate tables are not available and the number of line items/rates for which rate tables are not available is 10 or less, note in the report that the rates were not available and that the test could not be performed for those items. Note how many items were not able to be tested. If more than 10 historic line item rates are not available, perform the test by obtaining the most recent month of billing records available for the service shown on the line items. Test that the current rate tables obtained in step a. above, including all applicable discounts, surcharges, late fees, etc., are being applied to the applicable line item service. Note that this alternate procedure was performed, and the results, in the report.

c. For each billing system that is used by the BOC(s) to bill unaffiliated entities that is different than a billing system used to bill the same service to a section 272 affiliate, perform the procedures listed in steps a(1) and a(2) above. For each service to be tested identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the report.

d. Using the same randomly selected three individual non-consecutive months identified in step b above, obtain the billing records/invoices from each billing system tested in step c above (each system used to bill nonaffiliated entities that is different than the system used to bill the same service to section 272 affiliates), for the services to be tested identified in step a above that were billed to unaffiliated entities. Billing records should be for all BOCs, all states. Randomly select 10 invoices, and for each invoice judgmentally select ten line items. Ensure that the judgmental sample includes a representation of the same services tested in step b above. If the judgmental sample is not representative of the same services tested in step b above, repeat selection of the judgmental sample. For each line item selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. If historic rate tables are not available, perform the test with the current rate tables obtained in step c. above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed was calculated using the appropriate rate in the rate table. Also, for each line item test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the report each instance where a discrepancy is found in the billing or recording by the BOC of the billing of the service to the nonaffiliate, and each instance where the payment of the bill was not properly recorded, or not recorded.

e. For local exchange services purchased from the BOCs by both an unaffiliated entity and any section 272 affiliate, obtain for one month, randomly selected, detailed billing data reports for the three states that provide the majority of local exchange services to the former Verizon section 272 affiliates in 2005. Obtain detailed billing data reports for unaffiliated customers with the same class of service in these same three states for the same month. For each state selected, identify the 9 USOCs billed to the section 272 affiliate(s) with the highest dollar volumes, plus one additional USOC selected at random. Document in the audit report which system(s) is used to bill local exchange services. Also inquire and document how the BOCs update the rate tables in the billing system(s) used for local exchange services. For each of the thirty (30) section 272 affiliate USOCs as selected above, select 3 nonaffiliated transactions with the same USOC and compare the USOC rates charged to the section 272 affiliate(s) to the rates charged to unaffiliated customers. Disclose in the report any differences and explanations from management for such differences. Also test the billing to the section 272 affiliate(s) by randomly selecting 25 invoices for the month selected and determine if the invoice was properly recorded by the BOCs, and that the billed amount was paid. Disclose in the report each instance where a discrepancy is found in the recording of the bill by the BOC, or in the payment of the bill by any section 272 affiliate.

5. Obtain from management, document and disclose in the report how the Verizon BOCs disseminate information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Note any differences of how information is disseminated to section 272 affiliates and unaffiliated entities in the report.

6. At the service call centers observed in Procedure 7 below, obtain and inspect scripts that the Verizon BOCs' customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. In addition, obtain the script that is used in Verizon's Consumer Call Centers' Voice Response Unit (VRU). If these scripts contain language to attempt to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services and that these providers, along with the interLATA service affiliates, are identified to the consumers. In addition, obtain and inspect the written content of the Verizon BOC website for on-line ordering of new service or to move an existing local telephone service; note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and that these providers, along with the interLATA service affiliate, are identified to the consumers.

7. Obtain a complete listing, as of the end of the Test Period, of all Verizon BOC sales and support customer service call centers.

    a. From the listing, compile a list of Verizon BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, identify and group each call center by type of customers, viz., "Consumer" or "Business." Using a random number generator, select six Consumer call centers and four Business call centers. Listen in to a statistically valid number of calls (100 in total, or 10 per call center) in which the customer service representatives attempt to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. Labor union concurrence may be needed for this procedure. Note the equal access messages conveyed while listening in, including clarity of the equal access message delivered. Note and disclose in the report any instances where the customer service representative attempted to influence the caller to obtain the interLATA services of the section 272 affiliate prior to providing the equal access message, did not inform the caller of other providers of interLATA services, or did not inform the caller of his right to select the interLATA services provider.

b. From the listing, compile a list of call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory (such as sales and service centers that usually receive customer inquiries from existing customers). Using a random number generator, select three such Consumer call centers and two Business call centers, and listen in to 20 calls per center. Labor union concurrence may be needed for this procedure. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should report the results of the 100 total calls to the Oversight Team for further instructions. The Oversight Team will inform Verizon of the instructions provided to the practitioner.

c. Make a statistically valid number of test calls into Verizon's Consumer Call Centers' Voice Response Unit to listen for the equal access scripting message that is heard by customers prior to reaching a Consumer service representative. Note and disclose in the report any instances where the equal access scripting message was not heard.

8. Obtain a listing of all call centers managed by third parties in which representatives of third-party contractors of the Verizon BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service to another location within the BOC in-region territory. Using a random number generator, select three Consumer call centers and one Business call center. Listen in to 25 calls per call center. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should report the results of the 100 total calls to the Oversight Team for further instructions. The Oversight Team will inform Verizon of the instructions provided to the practitioner.

9. Obtain from management and disclose in the report the controls utilized by Verizon BOCs and the third party contractors hired for inbound telemarketing to assure compliance by Verizon BOCs with section 272. Compare Verizon BOC controls with third party contractor controls and document differences in the report. Describe all controls in the report.

10. Obtain and inspect each of the contracts between Verizon BOCs and third party contractors that provide telemarketing of the section 272 affiliate's interLATA services. Document in the audit report all controls contained in the contracts relating to section 272.

<u>OBJECTIVE VIII</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

<u>STANDARDS</u>

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, further proceedings regarding performance measurements (currently underway) will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when adopted by the FCC and to the extent in effect during the engagement period. In the Order approving the application of Verizon to merge with MCI (FCC 05-184, APPENDIX G, Attachment A), the FCC mandated performance reporting for interstate access services. (See footnote 16)

The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its section 271 applications, Verizon made commitments regarding compliance with section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in Verizon's dealings with its section 272 affiliates. If the Commission adopts reporting requirements, Verizon BOC/ILEC will fully comply.

<u>PROCEDURES</u>

1. Document in the working papers the practices and processes each Verizon BOC/ILEC has in place to fulfill requests for exchange access service for the section 272 affiliates, BOC

and other BOC affiliates, and nonaffiliates in each state where Verizon has been authorized to provide in-region interLATA services. If the section 272 affiliates, or BOC and other BOC affiliates, are treated differently than nonaffiliates, note and describe all differences in the report. Obtain from management and disclose in the report the BOC's internal controls and procedures designed to implement its duty to provide nondiscriminatory service.

2. For each state where Verizon has been authorized to provide in-region interLATA services, document in the working papers the processes and procedures followed by the Verizon BOC/ILEC to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Note any differences in the provision of information to the various parties. Inquire of management whether any employees of the section 272 affiliates or other affiliates have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Obtain from management and disclose in the report any such instances.

3. For each state where Verizon has been authorized to provide in-region interLATA services, obtain from management the written methodology which the Verizon BOC/ILEC follows to record time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for the services described in Procedure 4, below. Document in the report the methodology obtained from management. If the company does not have any written procedures inquire and document why in the report.

4. For each state where Verizon has been authorized to provide in-region interLATA services, obtain and include as an attachment to the report, performance data maintained by each Verizon BOC/ILEC during the engagement period, by month. Indicate the following performance measurements for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups, as defined in FCC 05-184, APPENDIX G, Attachment A (pages 132-138):

- Firm Order Confirmation (FOC) Timeliness
- Percent Installation Appointments Met
- New Installation Trouble Report Rate
- Failure Rate/Trouble Report Rate
- Average Repair Interval/Mean Time to Restore

Provide performance data for the following services:

- Exchange access services as submitted through an Access Service Request (ASR) for DSO, DS1, DS3 and above, as individual groups. For the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.

- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the information to be included in the metrics.

If performance measures are applicable for either the "section 272 affiliates" or the "BOC and other BOC affiliates" groups, performance metrics for nonaffiliates are required. If performance measures are not applicable for the "nonaffiliated" group, performance metrics are not required to be reported for either the "section 272 affiliates" or the "BOC and other BOC affiliates" groups. When reporting performance measures for the "nonaffiliates" group, only performance measures for the services purchased by the "section 272 affiliates" and/or the "BOC and other BOC affiliates" need be reported.

For each group (section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates) and each service category (exchange access service and PIC change orders) combination in the table below for which Verizon makes a claim of "not applicable", the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE MEASUREMENT REPORTING

Company Type	Exchange Access Service (ASRs Only)	PIC Change Orders (both interLATA and intraLATA PIC changes)
Section 272 Affiliate	Included	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided to end users on a **Retail** basis, and **Wholesale** services provided to affiliates	Included if applicable
Non-Affiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included	Included

The performance measures should include the requested performance data by month, including standard deviation calculations and respective volumes, for each state beginning with the first whole month of data following January 3, 2005, or section 271 approval if later, for that state and ending on December 31, 2006. For clarification purposes, MCI data will be required for the entire engagement period. In addition, all MCI affiliates will be classified in the “nonaffiliated” group from January 2005 through May 2005. For June 2005 through December 2006, the MCI affiliates will be classified either as a “BOC and other BOC affiliate” or a “section 272 affiliate” as appropriate for that affiliate. Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For purposes of inclusion in the report, the practitioner should obtain all restatements of any performance data, and include in the report the latest restatement. For any months, states, or standard deviation for which Verizon makes a claim of “not applicable” or “not available,” the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

For each of the above service categories, except for PIC change orders, the measurements shall be those that Verizon has committed to maintain in APPENDIX G, Attachment A of the Verizon/MCI Merger Conditions to prove compliance with these nondiscriminatory requirements, as follows:

a. Firm Order Confirmation (FOC) Timeliness: i.e., The percentage of FOCs returned within the Company-specified standard interval. Counts are based on the first instance of a FOC being sent in response to an ASR. Activity starting on a weekend or holiday will reflect a start date of the next business day. Activity ending on a weekend or holiday will be calculated with an end date of the last previous business day. Requests received after the company’s stated cutoff time will be counted as a “zero” day interval if the FOC is sent by close of business on the next business day. The standard interval will be that which is specified in the company-specific ordering guide. Indicate the total number of FOCs for each service and for each group of customers.

b. Percent Installation Appointments Met: i.e., The percentage of installation met on or before the confirmed due date for circuit orders completed during the current reporting period. This measurement is calculated by dividing the number of circuit orders completed during the reporting period, on or before the confirmed due date, by the total number of orders completed during the same reporting period. Installation appointments missed because of customer caused reasons shall be counted as met and included in both the numerator and denominator. Example of customer caused reasons include, but are not limited to, the following situations: 1) customers not ready, 2) customers requested later date, 3) premises not ready, 4) customer not prepared to test, 5) no access to premises. Indicate the total number of service orders for each service and for each group of customers.

c. New Installation Trouble Report Rate: i.e., The percentage of circuits where trouble was found in Verizon facilities or equipment within thirty days of order completion. Only the first customer direct trouble report received within thirty calendar days of a completed service order is counted in this measure. Only customer direct trouble reports that required the Regional Bell Operating Company (RBOC) to repair a portion of the RBOC network will be counted in this measure. The RBOC completion date is when the RBOC completes installation of the circuit. Indicate the total number of installation orders for each service and for each group of customers.

d. Failure Rate/Trouble Report Rate: i.e., The percentage of initial and repeated circuit-specific trouble reports completed per 100 in-service circuits for the reporting period. Only customer direct trouble reports that require the RBOC to repair a portion of the RBOC network will be counted in this report. The trouble report rate is computed by dividing the number of completed trouble reports handled during the reporting period by the total number of in-service circuits for the same period. Indicate the total number of circuit-specific trouble reports for each service, and for each group of customers.

e. Average Repair Interval/Mean Time to Restore: i.e., The average time between the receipt of a customer trouble report and the time the service is restored. The average outage duration is only calculated for completed circuit-specific trouble reports. Only customer direct trouble reports that require the RBOC to repair a portion of the RBOC network will be counted in this measure. The average outage duration is calculated for each restored circuit with a trouble report. The start time begins with the receipt of the trouble report and ends when the service is restored. This is reported in a manner such that customer hold time or delay maintenance time resulting from verifiable situations of no access to the end user premise, other competitive local exchange carriers (CLEC)/ interexchange carriers (IXC) or RBOC retail customer caused delays, such as holding the ticket open for monitoring, is deducted from the total resolution interval ("stop clock" basis). Typical reasons for delay include, but are not limited to, premise access when a problem is isolated to the location or absence of customer support test facilities. This amount is calculated by dividing the total hours for the total trouble reports by the number of total trouble reports. Indicate the total number of trouble reports for each service, for each group of customers.

For PIC change orders, the measurements shall be as follows:

Average Time of PIC Change: i.e., Time measured from receipt of carrier initiated change to completion at switch. Indicate the total number of PIC change orders for each group of customers.

Note and disclose in the report differences in performance for each type of request for the same services from the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates. Elicit explanations from Verizon where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates. Provide in the report a linear graph for each state, for each performance measure, for each service, over the entire engagement period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly select one month during the engagement period for all states where Verizon has obtained authority to provide in-region interLATA services.

For the selected month, apply the business rules to the underlying raw data and compare the results to those tracked and maintained by the Verizon BOCs for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.

6. Determine by inquiry, first, and then by inspection, how and where the Verizon BOC/ILEC makes available to unaffiliated entities information regarding service intervals that were experienced in providing any service to the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Document in the report how the Verizon BOC/ILEC makes this information available to the parties.

<u>OBJECTIVE IX</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

<u>STANDARDS</u>

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate. (See First Report and Order, para. 16)

- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its section 272 affiliate. (See First Report and Order, para. 316)

<u>PROCEDURES</u>: This objective is closely related to Objective XI which contains procedures for the provision by the BOCs of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain a list of exchange access services and facilities with their related rates offered to each section 272 affiliate and inspect to determine whether the Verizon BOC/ILECs make these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered to each section 272 affiliate with those offered to unaffiliated carriers. Note in the report all exceptions.

2. a. Select three months at random from October 2005 through September 2006. For each of the three months selected, obtain a listing of all exchange access services and facilities (Universal Service Order Code ("USOC")/class of service) rendered to the section 272 affiliate(s). From the listing of all exchange access services and facilities that were rendered by the BOC/ILECs to any section 272 affiliate during the three months selected, determine the 9 exchange access services/facilities billed to section 272 affiliates with the highest billing volume in dollars (determination should be made based on accumulated billing to all section 272 affiliates). In addition, randomly select one

service from among the remaining services for a total of 10 services to be tested. Verify that each of the “highest 9” and “random” services meets both of the following conditions: (i) the USOC/class of service was also rendered to unaffiliated third parties, and the dollar amount of billing for such service to third parties was greater than 25% of the total quantity of such service sold by the BOC/ILECs, and (ii) at least one of the unaffiliated third parties purchasing such service was an interLATA service provider. If either of the two conditions is not met, select the next “highest” dollar billing volume service, or another random service if applicable, until both conditions are met. For each of the final exchange access services/facilities to be tested, determine which billing system the BOC/ILEC(s) uses to bill the selected service/facility, and disclose in the report whether the same system(s) is used for the billing of both section 272 affiliates and other IXCs.

(1). Inquire, obtain from management and document in the report the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates (e.g., the same rate table is used for all carriers). For each exchange access service and facility selected to be tested, and for each billing system used to bill the section 272 affiliates, obtain the billing system rate tables including any applicable discounts, surcharges, late fees, etc., used to bill the selected service. Determine, through comparison of rates, if the rate tables in place reflect the current tariff or agreement rates, and disclose in the report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than those billed to nonaffiliates. Inquire, obtain from management and document in the report the BOC/ILECs’ procedures for updating the rate tables for the Test Period.

NOTE: As an alternative to obtaining the billing system rate tables, the practitioner may instead obtain a list from Verizon of the rates contained in the rate tables for each USOC included in the 90 selected billing transactions in step b above. If this option is elected, the practitioner must also obtain from Verizon a written representation that the rates provided were taken from the billing system rate tables.

(2). For each billing system identified that is used to bill section 272 affiliates, document in the work papers the practices and processes each Verizon BOC/ILEC has in place to ensure the billing system bills the section 272 affiliate and nonaffiliates at the same rates and under the same terms and conditions. Document the BOC’s internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Inquire, obtain from management and include in the report a summary of what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also inquire, obtain from management and include in the report a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, inquire of management and document in the report how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. For each month selected in step a, obtain the billing records for each of the 10 services to be tested (each of the 10 USOCs to be tested) identified in step a above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each USOC, randomly select three billing transactions (e.g., three line items or three circuits) for a total of 90 transactions.

(1). For each billing transaction selected, test each transaction for the proper application of the rate per the appropriate rate tables, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table.

(2). Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any intercompany automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded.

(3). Also test that the transaction (and the same amount) was properly recorded on the section 272 affiliate's books, and that the same amount was paid by the section 272 affiliate. Document in the report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts.

c. For each billing system that is used by the BOC/ILEC(s) to bill exchange access services or facilities to an unaffiliated entity that is different than a billing system used to bill the same services or facilities to the section 272 affiliates, perform the procedures listed under steps a(1) and a(2) above. For each service to be tested identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the report.

d. Using the same three randomly selected months from step a above, and the same 10 services to be tested identified in step a above, obtain the billing records for each of the services to be tested from each billing system used by the BOC/ILEC(s) to bill exchange access services or facilities to nonaffiliates that is different than the billing system used to bill the same services to the section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each USOC, randomly select three billing transactions (e.g., three line items or three circuits) for a total of 90 transactions. For each billing transaction selected, test each transaction for the proper application of the rate per the appropriate rate tables tested in step c above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the third party, and each instance where the payment of the bill was not properly recorded, or not recorded.

<u>OBJECTIVE X</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate (See First Report and Order, para. 16). This requirement is met,

  - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)

  - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under section 251. (See First Report and Order, para. 256)

  - If the BOC files with the State Commission a statement of generally available terms pursuant to section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)

  - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)

- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)

- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and

Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of interLATA services offered by the Verizon BOCs and discuss the list with appropriate Verizon BOC employees to determine whether the list is comprehensive. Compare services appearing on the list with the interLATA services disclosed in the Verizon BOCs' Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in the Verizon BOCs' CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose in the report.

2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by the Verizon BOCs and not through an affiliate, determine whether each Verizon BOC is imputing (charging) to itself an amount for access, switching, and transport. Obtain usage details and tariff rates for each of the above elements. Match rates used in calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs) and note any differences in the report. After inquiry, obtain from management and document in the report the reasons for these occurrences. Trace the amount of the journal entry to the general ledger of the Verizon BOC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by the Verizon BOC is different from the one described above, disclose in the report.

3. For each of the following categories of services, viz., exchange access services, local exchange services and unbundled network elements, provided by any Verizon BOC/ILEC to the section 272 affiliates for the last 12 months of the engagement period, document the total amount the section 272 affiliates have recorded as expense for those services in their books, and compare the amounts booked as revenues by the Verizon BOC/ILECs to the amounts recorded by the section 272 affiliates. Also compare the amount recorded as expense to the amount paid by the section 272 affiliates to the Verizon BOC/ILECs. Where there is a difference in any of the comparisons, inquire and obtain from management an explanation of any differences, and disclose in the report.

<u>OBJECTIVE XI</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

<u>STANDARDS</u>

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC services and unbundled network elements made available under section 251 to each section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

<u>PROCEDURES</u>: This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain a list from the Verizon BOC/ILECs of interLATA services and facilities with their related rates offered by the Verizon BOC/ILECs to each section 272 affiliate to determine whether the Verizon BOC/ILECs make these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, also obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services.

   Compare the list of interLATA services offered obtained from the Verizon BOC/ILECs to the services found in the obtained information media and note any differences in the report. In addition, compare the list obtained from the Verizon BOC/ILECs to the list of interLATA services purchased by section 272 affiliates and obtained in Objective V/VI, Procedure 4, and to the list of interLATA services purchased by section 272 affiliates and obtained in Objective X, Procedure 1 (after comparison to the CAM). Document in the report any instance where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media that were not reported by the Verizon BOC/ILECs in response to this procedure. Also document in the report any interLATA services that are provided to any section 272 affiliate, but which are not covered by any written agreements.

2. Using the information media obtained in Procedure 1 above, select a statistically valid

sample of such media. Compare the rates, terms, and conditions offered each section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers. Disclose any differences in the report.

3. a. Obtain a listing of all interLATA services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) during the Test Period. From the listing of all interLATA services and facilities that were rendered during the Test Period by the BOC/ILEC(s) to both unaffiliated entities and any section 272 affiliate in any state, determine the 9 interLATA services/facilities billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. If there were not 10 different interLATA services/facilities rendered to unaffiliated entities, for purposes of this procedure select each interLATA service or facility rendered to an unaffiliated entity. Determine which billing system the BOC/ILEC(s) uses to bill each of the selected interLATA services and facilities, and disclose in the report whether the same system(s) is used for the billing of both section 272 affiliates and other IXCs.

NOTE: If the billing system(s) used to bill each of the selected interLATA services and facilities has already been tested elsewhere in this program (e.g., for Procedure V/VI-6, VII-4, or IX-2), it is not necessary to retest the system. In such cases, step a(1) through step d need not be performed. Instead, disclose in the report which interLATA services and facilities were selected for the procedure, which selected services and facilities are billed using each system, and cross-reference where in the report the results for that system may be found.

(1). Inquire, obtain from management and document in the report the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliates and nonaffiliates (e.g., the same rate table is used for all carriers). For each interLATA service and facility selected, and for each billing system used to bill the section 272 affiliates, obtain the billing system rate tables, including any applicable discounts, surcharges, late fees, etc., used to bill the selected service to the section 272 affiliates. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than those billed to nonaffiliates. Inquire, obtain from management and document in the report the BOC/ILECs' procedures for updating the rate tables for the Test Period.

(2). For each billing system identified above that is used to bill section 272 affiliates, document in the work papers the practices and processes the Verizon BOC/ILEC has in place to ensure the billing system bills the section 272 affiliates and nonaffiliates at the same rates and under the same terms and conditions. Document the BOC/ILEC internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Inquire, obtain from management and include in the report a summary of what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also include a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. Randomly select three individual non-consecutive months during the Test Period. For each month selected, obtain the billing records for the 10 services to be tested identified in step a. above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each service to be tested, randomly select 10 billing transactions from the three months of billing records. If fewer than 10 interLATA services/facilities are used for this procedure, continue selection of billing transactions at random until 100 such transactions are selected. If there are four or fewer interLATA services/facilities used for this procedure, randomly select a total of 25 billing transactions for each service (e.g., the test population may range from 25 to 100 billing transactions depending upon how many services are being tested).

(1). For each billing transaction selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. Determine if the amount billed was calculated using the appropriate rate in the rate table. If historic rate tables are not available and the number of line items/rates is 10 or less, note in the report that the rates were not available and that the test could not be performed for those items. Note how many items were not able to be tested. If more than 10 historic line item rates are not available, perform the test by obtaining the most recent month of billing records available for the service shown on the line items. Test that the current rate tables obtained in step a. above, including all applicable discounts, surcharges, late fees, etc., are being applied to the applicable line item service, and that the amount billed was calculated using the appropriate rate in the rate table. Note that this alternate procedure was performed, and the results, in the report.

(2). Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any intercompany automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliates, and each instance where the payment of the bill was not properly recorded, or not recorded.

(3). Also test that the transaction (and the same amount) was properly recorded on the section 272 affiliate's books, and that the same amount was paid by the section 272 affiliate. Document in the report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts.

c. For each billing system that is used by the BOC(s) to bill interLATA services or facilities to an unaffiliated entity that is different than the billing system used to bill the same service to the section 272 affiliates, perform steps a(1) and a(2) above. For each service to be tested identified in step a above, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the report.

d. Using the same three randomly selected months from step b above, and the same 10 services to be tested identified in step a above, obtain the billing records for the 10 services to be tested from each billing system used by the BOC/ILEC(s) to bill interLATA services or facilities to nonaffiliates that is different than the billing system used to bill the same services/facilities to the section 272 affiliates. Billing records should be for all BOC/ILECs, all states. If there were not 10 different interLATA services/facilities rendered to unaffiliated entities, for purposes of this procedure select each interLATA service or facility rendered to an unaffiliated entity. For each service to be tested, randomly select 10 billing transactions from the three months of billing records. If fewer than 10 different interLATA services/facilities are used for this procedure, continue selection of billing transactions at random until 100 such transactions are selected. For each billing transaction selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. If historic rate tables are not available, perform the test with the current rate tables obtained in step c above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed was calculated using the appropriate rate in the rate table. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the third party, and each instance where the payment of the bill was not properly recorded, or not recorded.

Procedures for Subsequent Events

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. If so, identify those changes and re-perform the related procedures to allow the specified parties to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.

2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event. (*See* Paragraph 4 within the Compliance Requirements of these agreed-upon procedures for the scope of the audit.)

Objectives V & VI; Procedure 5
Assessing Individual Web Postings

Form 1 (or electronic equivalent) required for each sample.
Sample # __________ Posting Reference __________

Col. A	Col. B	Col. C	Col. D	Col. E		Col. F	Col. G	Col. H
			Accuracy of Web Posting				Completeness of Web Posting	
Category	Is This "Category" Included in The Underlying Written Agreement?	Quantification of Columns D and E for Each Category in Column A	Total Number of Items Checked in Sample	Errors[1] Found in Sample		Quantification of Columns G and H for Each Category in Column A	Total Number of Items Checked in Sample	Errors[2] Found in Sample
T&C – Description of Service [includes title of service and what is the service]	Yes	1 per posting				1 per posting		
Rates-Level[3]	Yes	1 per rate				1 per rate		
Rate-Pricing Criterion [Tariff, PMP, FMV/FDC Designation]	Varies—generally not included	1 per rate				1 per rate		
T&C – Parties Providing Service[4]	Yes	# of parties to agreement				1 per posting		
T&C – Parties Receiving Service[5]	Yes	# of parties to agreement				1 per posting		
T&C –Contract Period [Effective Date of Service and Termination Date of Service]	Yes	2 per posting				Generally 2 per posting		
T&C – Renewal Clause	Yes	1 per posting				1 per posting		
Frequency of Recurring Transactions	Yes	Generally 1 per rate; may be summarized for a posting				Generally 1 per rate; may be summarized for a posting		
Number of Personnel	Yes[6]	1 per rate				1 per rate		
Personnel Type	Yes[6]	1 per rate				1 per rate		
Expertise Level[7]	Yes[6]	1 per rate				1 per rate		

[1] An error is any instance where an agreement contains an item(s) that does not agree with the corresponding item on the internet.
[2] An error is any instance where the internet did not contain sufficient details.
[3] For those websites that the rate is hyperlinked to the FCC/state tariffs, the Total Number of Items Checked in Sample will be one (1) and the link must go to the correct tariff for the number of errors found in that sample to be zero (0), when comparing the agreement to the web posting.
[4] Column D – If the section 272 affiliate is providing the service, regardless of the names/numbers of other parties also providing the service in the contract, only the section 272 affiliate name need be identified on the website.
[5] Column D - If the section 272 affiliate is receiving the service, regardless of the names/numbers of other parties also receiving the service in the contract, only the section 272 affiliate name need be identified on the website.
[6] Applies to this section only if the agreement contains applicable language, otherwise N/A.
[7] Expertise level is considered the "job title" of the person doing the work.

Col. A	Col. B	Col. C	Col. D	Col. E		Col. F	Col. G	Col. H
Category	Is This "Category" Included in The Underlying Written Agreement?	Quantification of Columns D and E for Each Category in Column A	Accuracy of Web Posting			Quantification of Columns G and H for Each Category in Column A	Completeness of Web Posting	
			Total Number of Items Checked in Sample	Errors[1] Found in Sample			Total Number of Items Checked in Sample	Errors[2] Found in Sample
Special Equipment	Yes[6]	1 per posting				1 per posting		
Completion Time for Transaction	No	NA		NA		Generally 1 per rate		
Contains notation / footnote that the labor rate is a fully loaded rate	No	NA		NA		1 per posting		
Contains notation / footnote that the labor rate includes material cost	No	NA		NA		1 per posting		
Contains notation / footnote that the rate includes all direct and indirect misc. and overhead cost	No	NA		NA		1 per posting		
Assets - Quantity Transferred	Yes	Varies-quantity for each type of asset transferred				Varies-quantity for each type of asset transferred		
Assets - Quantity Transferred	Yes	Varies-quantity for each type of asset transferred				Varies-quantity for each type of asset transferred		
Total Items/Results (Move to Form 2)								

Attachment 2

Objectives V & VI; Procedure 5
Summary of Web Posting Completeness and Accuracy Results

Form 2 - These results would be developed based on the Form 1 results for each sample.

Col. A	**Col. B**	**Col. C**		**Col. D**	**Col. E**
	Accuracy of Web Postings			Completeness of Web Posting	
	Total Number of Items Checked in Sample	Errors Found in Sample		Total Number of Items Checked in Sample	Errors Found in Sample
Sample # 1					
Sample # 2					
Sample # 3					
Sample # 4					
Sample # 5					
Sample # 6					
Sample # 7					
Sample # 8					
Sample # 9					
Sample # 10					
Sample # 11					
Sample # 12					
Sample # 13					
Sample # 14					
Totals					
Error Rate as a Percentage		Col. C Total / Col. B Total x 100			Col. E Total / Col. D Total x 100